



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	01/06/00	Bill No:	AB 1667
Tax:	Sales and Use	Author:	Knox
Board Position:		Related Bills:	AB 3187 (1996)

BILL SUMMARY:

This bill would extend indefinitely the sales and use tax exemption for sales of used clothing, household items, or other retail items sold by certain thrift stores operated by a nonprofit organization, as specified.

ANALYSIS:

Current Law:

Under existing law, the sales tax or the use tax applies to the sale or use of tangible personal property (including second hand property) in this state, unless specifically exempted by law. Under existing law, Section 6363.3 of the Revenue and Taxation Code, as added by AB 3187 (Stats. 1996, Ch. 781), provides a sales and use tax exemption until January 1, 2002 for sales of used clothing, household items, and other retail items sold by thrift stores operated by a nonprofit organization. To qualify, the purpose of the thrift store must be to obtain revenue for the funding of medical and social services to individuals with AIDS, and at least 75 percent of those revenues must actually be expended for that purpose.

Current law also provides an exemption for sales by other charitable organizations. Under Section 6375 of the Revenue and Taxation Code, sales (including thrift store sales) by charitable organizations are exempt from sales and use tax under the following conditions:

1. The organization must be formed and operated for charitable purposes and must qualify for the "welfare exemption" from property taxation provided by Section 214 of the Revenue and Taxation Code.
2. The organization must be engaged in the relief of poverty and distress.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position

3. The organization's sales must be made principally as a matter of assistance to purchasers in distressed financial condition.
4. The property sold must have been made, prepared, and assembled or manufactured by the organization.

Merchandise sold through thrift stores operated by Goodwill Industries, the Salvation Army, and St. Vincent de Paul, for example, qualify for the exemption under Section 6375.

Proposed Law:

This bill would amend Section 6363.3 of the Sales and Use Tax Law to delete the sunset date of January 1, 2002, thereby extending the exemption indefinitely.

The bill would become effective immediately.

COMMENTS:

1. **Sponsor and purpose.** This measure is sponsored by the AIDS Healthcare Foundation which operates several thrift stores in the Los Angeles area, selling used items in order to raise funds for purposes of providing medical and social services to AIDS patients.
2. **Bill would not complicate the Board's administration of the tax laws.** The Board is currently administering the exemption under Section 6363.3 for sales by qualifying organizations and enactment of this bill would not significantly affect the Board's administration of the Sales and Use Tax Law.

COST ESTIMATE:

This bill would not materially affect the Board's administrative costs. Some minor costs would be incurred in notifying affected retailers, amending the Board's applicable regulation, and answering inquiries. These costs would be absorbable.

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REVENUE ESTIMATE:

We estimate that sales subject to this bill would amount to about \$2 million annually. The annual revenue impact from extending indefinitely the sales and use tax exemption for used pieces of clothing, household items, or other retail items sold by thrift stores operated by a nonprofit organization, as defined, if the purpose of that thrift store is to obtain funding for medical and social services provided to individuals with a chronic, life threatening illness, as defined, by the nonprofit organization would be as follows:

	<u>Revenue Effect</u>
State loss (5%)	\$100,000
Local loss (2.25%)	45,000
Transit loss (1%)	<u>20,000</u>
Total	<u><u>\$165,000</u></u>

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